Special Report:
State Business Incentive Grant Programs

Summary

The Joint Legislative Audit and Review Commission (JLARC) directed its staff to examine the long-term costs and benefits of the major business incentive grants that are funded through the Commonwealth of Virginia's General Fund. Business incentive grant programs are intended to attract companies that are considering locating or expanding in Virginia, especially when other states or countries are competing for these businesses. These programs generally offer grants for workforce training, site acquisition and development, construction, transportation access, other capital expenditures, or other specified purposes. Examples of business incentive grant programs examined are the Governor's Opportunity Fund and workforce training assistance.

This report has three main conclusions. One is that if the State were to eliminate funding of its two (currently) largest business incentive programs in a given fiscal year, there would be longer-term consequences. Fewer new jobs (along with investments in facilities) would likely be created or transferred to Virginia; instead these jobs would likely locate in other states. In two to three years, the State's resulting loss of individual income tax revenues would likely be more than the amount that was saved by cutting these programs. There would also be less corporate income tax and sales tax revenues, and less indirect economic activity due to the investments (that would accompany these business expansions) not being made.

Another conclusion is that the State may wish to reconsider to which types of companies it provides incentives to locate or expand in Virginia. State taxpayer dollars should not be spent on businesses that may be defrauding Virginians or having other undesirable effects on the population at large.

Third, the State has promised some companies some sizable grants in future years after the current biennium, which would require new appropriations from the General Assembly. However, past experience indicates that not all companies will likely meet the required performance criteria to receive the grants. Further, the General Assembly has the prerogative to fund the maximum amounts, or less, in making its appropriations in future years. However, Virginia Economic Development Partnership staff expressed the concern that not fully funding the agreed-upon amounts with companies may undercut the State's economic development efforts in the future.

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State Business Incentive Grant Programs in Virginia

At its July 2002 meeting, the Joint Legislative Audit and Review Commission (JLARC) directed its staff to examine the long-term costs and benefits of State business incentive programs. JLARC staff were also requested to report on obligations the State may have to private companies through business incentive programs in future fiscal years. After some background on the State's largest business incentive programs, this report provides a follow-up of projects in 1997 and 1998, comparing measurable benefits with costs. The report then lists State commitments for grants to private companies that will come due in future years.

BACKGROUND ON STATE INCENTIVE PROGRAMS

This report focuses primarily on the major business incentive grants that are funded through the Commonwealth of Virginia's General Fund. Other kinds of incentives that may be used as well (such as tax credits, loans, Industrial Development Bonds, loan guarantees, and federal monies provided through programs such as the Community Development Block Grants) are not examined in this report.

The four largest business incentive grant programs are:

- ***Governor's Opportunity Fund (GOF).*** According to the Virginia Economic Development Partnership (VEDP), the GOF is used at the Governor's discretion when deemed necessary to secure a business location or expansion in Virginia in the face of competition from other states or countries. A local government or industrial development authority may apply for matching funds to assist a prospect with site acquisition and development, construction, transportation access, or other capital expenditures. Projects benefiting from a GOF grant are supposed to meet minimum levels of investment and job creation based on the population of the locality applying for the grant. (If investment and job creation criteria are not met, the performance agreement required for every project requires the repayment of a proportional amount to the State.) In FY 2001, the Governor approved $19,197,000 in GOF grants.

- ***Workforce Services.*** The Department of Business Assistance provides partial reimbursement for training and retraining of individuals for specific newly-created employment opportunities at Virginia businesses. In order for companies to qualify for this incentive, they must create a minimum of 25 new jobs, make a capital investment of at least $1 million, pay at least $8.00 an hour, and generate more than 50 percent of their revenue from outside Virginia. This incentive is available for location or expansion projects in competition with at least one other state or country. The workforce services incentive is the most frequently used business incentive in Virginia for new and expanding operations. Each company has a total amount awarded, but projects may be active over multiple years. For example, in those cases in which a company has been allocated a workforce training incentive but has not requested reimbursement during FY 2001, a zero is indicated as the amount spent in FY 2001. Because the program provides a reimbursement for costs incurred, evidence of the companies' actual hiring of individuals and training expenditures must first be provided to substantiate the amount claimed. In FY 2001, over $67 million was obligated to companies for workforce training, and approximately $12 million of that amount was actually paid to companies (leaving the State with a commitment to pay the remaining $55 million in future years, if all companies achieve the criteria necessary to receive the incentive, and contingent on the approval of the Governor and the General Assembly).

- ***Virginia Investment Partnership (VIP).*** Initiated in FY 2000, the Virginia Investment Partnership is an investment performance grant program for existing Virginia manufacturers and large employers. It is also administered by the Virginia Economic Development Partnership. The program targets companies that have operated in Virginia for at least five years and propose projects that fall into one of the following two groups: (1) Tier One is for existing Virginia manufacturers investing at least $25 million to increase the productivity of a Virginia manufacturing facility or to utilize a more advanced technology; and (2) Tier Two is for existing Virginia employers investing at least $100 million and creating at least 1,000 new jobs. No job creation is required for Tier One projects, although the manufacturer's employment base in Virginia must at least remain stable. For all projects, a performance agreement specifies the promised capital investment and job creation. The performance grants are paid in five annual installments beginning in the sixth year after the capital investment and job creation (if applicable) is completed. VIP grants awarded in FY 2001 totaled over $25 million.

- ***Semiconductor Memory or Logic Wafer Manufacturing Performance Grant Programs.*** These performance grant programs are targeted to manufacturers of semiconductor memory or logic wafers who are located in a certain "eligible city" or "eligible county" (namely, Manassas and Henrico County). According to the *Code of Virginia* Sections 59.1-284.14 and 59.1-284.15, a manufacturer is eligible to receive these grants beginning five years after the commencement of the manufacture of these wafers. The amount is $100 per memory wafer and $250 per logic wafer, if the manufacturer provides evidence that the wafer was manufactured in Manassas or Henrico County and sold during a given calendar year. The manufacturer is entitled to receive annual grants for five years following the date its initial application for a grant is filed. The first grants are to be paid in FY 2005, totaling $7,650,000 (subject to General Assembly appropriations).

There are additional business incentive programs that each spent under $2 million in FY 2001:

- ***Enterprise Zone Job Grants.*** This program is for businesses within an enterprise zone. Businesses that create new full-time jobs may receive grants of up to $500 per job (or $1,000 if a zone resident fills the position). Businesses may receive a maximum of $100,000 per year for up to three consecutive years. In FY 2001, 125 businesses received job grants totaling $1,985,999. The total amount of money claimed by businesses was nearly $2.3 million, which exceeded appropriated funds, so eligible recipients received a prorated amount. (about 86 cents for every dollar claimed)

- ***Solarphotovoltaic Manufacturing Incentive Grants.*** This program is designed to encourage the product development and manufacture of solar photovoltaic panels. It is administered by the Department of Mines, Minerals and Energy. Under this program, any manufacturer who sells photovoltaic panels manufactured in Virginia is eligibe for an annual incentive grant ranging from 25 cents to 75 cents per watt of the rated capacity of the panels sold. During FY 2001, $985,041 was paid out in one performance grant to one company. This grant was based on calendar year 2000 production of 1,313,388 watts of solarphotovoltaic panels manufactured and sold by the company.

- ***Industrial Access Road Program.*** The Virginia Department of Transportation administers the Industrial Access Road Program through its Secondary Roads Division. This program provides matching grants to Virginia localities to build or complete road access to industrial sites. The six projects funded in FY 2001 received $1,361,800.

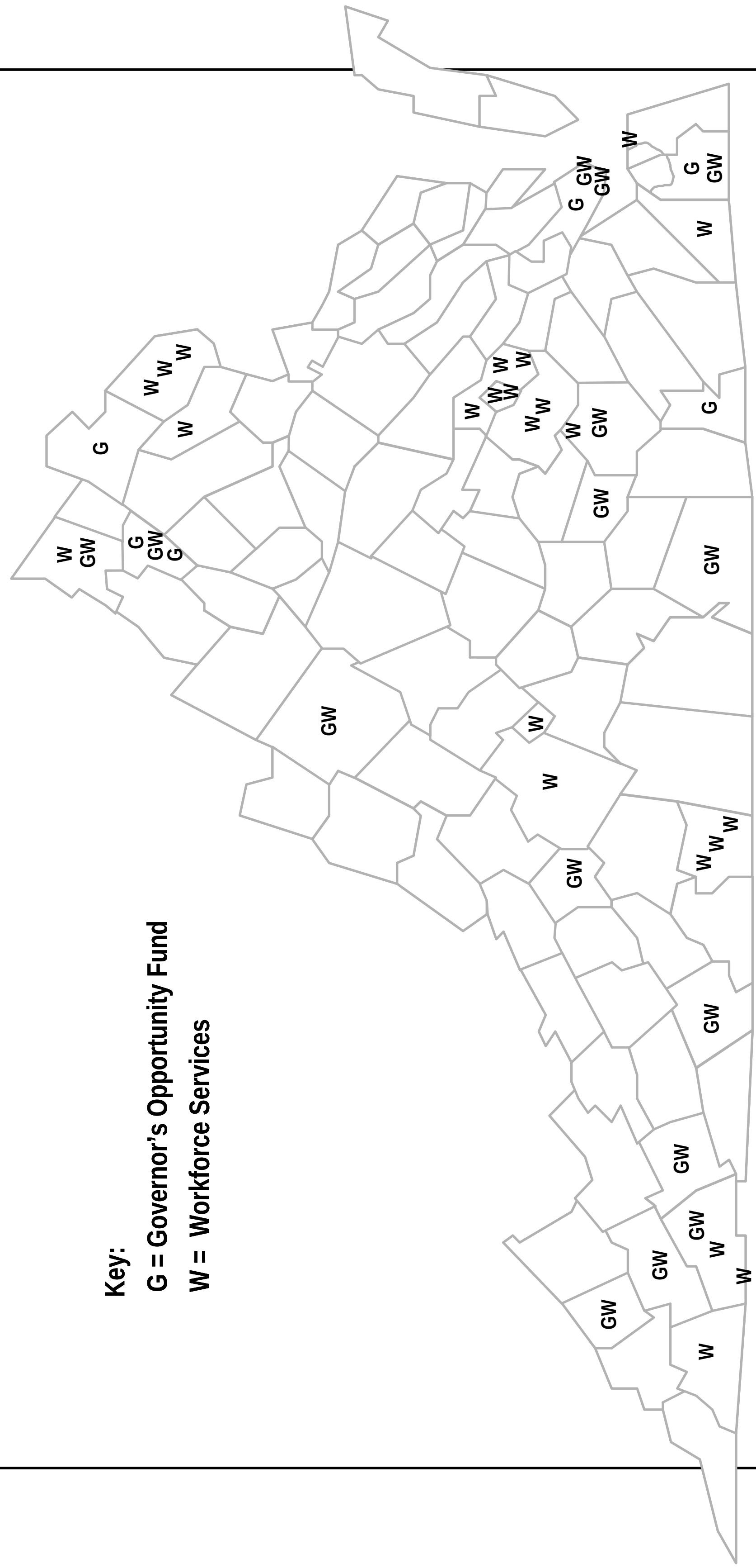
- ***Rail Industrial Access Program.*** The Virginia Department of Rail and Public Transportation administers the Rail Industrial Access Program. Like the Industrial Access Road Program, matching grants are made to localities. In the Rail Access program, however, specific industries must be identified as requiring rail access to the site to be eligible. During FY 2001, two awards were made for rail access totaling $250,000.

In addition, the Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center is a joint project of the Commonwealth of Virginia, the City of Newport News, and Northrop Grumman Corporation, which receives funding and staff support through VEDP.

FOLLOW-UP ON BENEFITS AND COSTS OF 1997 AND 1998 PROJECTS

According to the VEDP web site, in 1997 and 1998, the Governor’s Office and the VEDP issued press releases on 89 projects in which private companies received business incentive grants from the State. These press releases predicted how many new jobs were created and how much money companies were investing in Virginia with each project. They also stated how much money the State was committing to these companies through the Governor’s Opportunity Fund, and whether workforce training incentives were provided through VDBA. (No Virginia Investment Partnership or Semiconductor Manufacturing Performance grants were awarded in 1997 and 1998.) Figures 1 and 2 show how the announced GOF and workforce service grants were distributed across the State. The purpose of this follow-up review is to examine to what extent the jobs and investments expected

Figure 1: **1997 Distribution of Announced Economic Incentive Grants**



Source: JLARC staff review of Virginia Economic Development Partnership press releases.

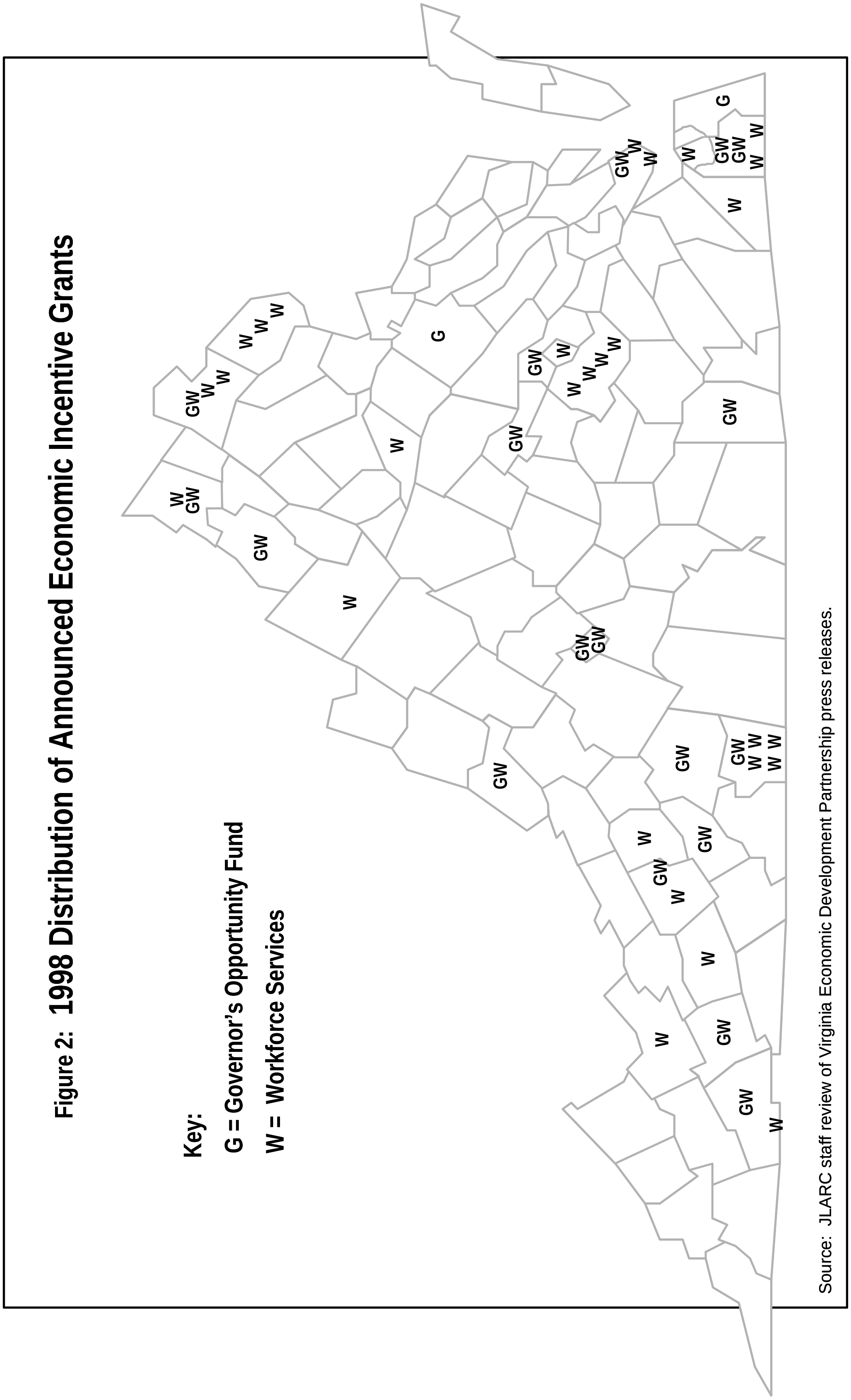


Figure 2: 1998 Distribution of Announced Economic Incentive Grants

Source: JLARC staff review of Virginia Economic Development Partnership press releases.

with these projects did in fact materialize, to what extent they are still intact 3½ to 5½ years after the Governor's public announcement of them, and whether the State appears to recover the money it has put into attracting these companies to Virginia.

This set of projects was chosen for examining the long-term costs and benefits for several reasons. One is that the VEDP indicates companies are expected to create the jobs and invest their money within 30 months (or 2½ years) after receiving a GOF grant. Allowing an additional year between the public announcement and the grant to be received, it seemed reasonable for JLARC staff to see by October 2002 evidence of jobs created and investments in Virginia to have been made among the projects that were announced in Calendar Years 1997 and 1998. A second reason is that Calendar Years 1997 and 1998 cover two Administrations, rather than focusing on just one. A third reason is that 1997 is the first complete year in which these press releases from the Governor's Office are readily accessible to the public on the Internet (such that there is a public record specifying the name of the company, the investment to be made, and the number of jobs anticipated to be created).

A fundamental assumption is that because Virginia was in competition with other states or countries for each of these 89 expansion or location projects, the provision of incentives was essential for each company to decide to locate its project in Virginia. These business incentives were not the only reason for companies to locate their operations in Virginia. But VEDP, VDBA, and local economic development staff emphasized that these grants provided in each case a tangible symbol that the State government sincerely wanted the business to consider a Virginia location over the competition. Without these grants, they contended, Virginia would not have been seriously considered.

Many of the Anticipated Jobs Did Not Materialize, but Projects that Exceeded Expectations Made Up for Them

The most salient measure of economic impact of a business location or expansion is the number of jobs created. Because workforce training services were provided in the vast majority of the 89 projects announced in 1997 and 1998 press releases, VDBA collected information documenting the jobs created by these projects. (VDBA requires that companies provide evidence that they actually hired individuals and trained them as specified at the outset of a project. In order to receive reimbursement for workforce training, businesses must submit to VDBA the names, social security numbers, job titles, hourly wage and date of hire of all new trainees after they have been employed for 90 days.) The "Short Term Job Counts" column in Table 1 generally represents the number of jobs for which VDBA provided workforce training reimbursements to each company. Companies typically sent in their requests for reimbursement within one or two years after people were initially hired into these jobs. So these numbers represent the some or all of the jobs created in the first one or two years. However, they may be underestimating the actual jobs created if some companies hired people but did not apply for workforce training reimbursement from VDBA.

TABLE 1

Comparison of Anticipated Jobs (in 1997 Press Releases) to Actual Jobs Created

Company	Locality	Anticipated # Jobs to be Created (from Press Releases)	Short Term: Short Term Job Counts	Short Term: % Anticipated Jobs Created	Long Term: Long Term Job Counts	Long Term: % Change from Short Term
Hershey Foods	Augusta County	85	36	42%	85	136%
Siegfried Haller Uhrenfabrik	Bedford County	50	0	0%		
Boise Cascade Office Products	Bristol	550	488	89%	489	0%
Magnolia Manufacturing Co.	Carroll County	40	257	643%	441	72%
Dollar Tree Stores Inc.	Chesapeake	125	484	387%	484	0%
Chubb Group Insurance	Chesapeake	250	357	143%	365	2%
Quality Packaging Systems	Chesterfield County	109	84	77%	109	30%
Bernstein US	Chesterfield County	75	0	0%		
Nexus Communications	Dickenson County	550	94	17%	Out of bus.	-100%
TXI	Dinwiddie County & Petersbg	400	477	119%	477	0%
Creative Playthings	Emporia	55	21	38%	160	662%
Playgrounds, Inc.	Fairfax County	20	0	0%		
Medical Consumer Media	Fairfax County	100	0	0%		
Andersen Consulting L.L.P.	Fairfax County	1700	266	16%	750	182%
Jouan, Inc.	Frederick Co. & Winchester	60	60	100%	135	125%
Kohl's Corporation	Frederick Co. & Winchester	600	723	121%	572	-21%
Bell Atlantic Plus, Inc.	Hampton	900	900	100%	550	-39%
"K" Line America, Inc.	Henrico County	90	218	242%	250	15%
White Oak Semiconductor	Henrico County	n/a	1,845		1750	-5%
GE Financial Assurance	Henrico County	200	291	146%	331	14%
GE - Life of Virginia	Henrico County	n/a	180		979	444%
5B's	Henry County	1000	200	20%	Bankrupt	-100%
American Fiber Industries	Henry County	300	734	245%	662	-10%
Amfibe, Inc.	Henry County & Martinsville	60	10	17%	250	2400%
Atlantic Coast Airlines	Loudoun County	300	1,242	414%	4000	222%
GE - First Colony Ins.	Lynchburg	130	200	154%	200	0%
Jones Apparel Group, Inc.	Mecklenburg Co. & South Hill	175	212	121%	164	-23%
Iceland Seafood	Newport News	350	252	72%	310	23%
Market Connections Co.	Norfolk	300	322	107%		
Ontario Store Fixtures	Nottoway Co. & Blackstone	250	0	0%	Bankrupt	
Industrial Galvanizers America	Petersburg	60	57	95%	61	7%
Dominion Semiconductor	Prince Wm. Co. & Manassas	1200	1,158	97%	1350	17%
Barber and Ross Millwork	Richmond City	200	82	41%	200	144%
VehiCare, Inc.	Richmond City	175	37	21%	25	-32%
Maple Leaf Bakery	Roanoke City	150	133	89%	137	3%
Reynolds Metals	Russell County	67	270	403%		
National Foam Cushion	Scott County	125	0	0%		
Marley Mouldings	Smyth County	96	80	83%	92	15%
Mariah Vision3 Entertainmt	Suffolk	75	19	25%	28	47%
Ferguson Enterprises	Warren Co. & Front Royal	125	186	149%	203	9%
Family Dollar	Warren County	425	525	124%	525	0%
Toray Plastics	Warren County	115	95	83%	127	34%
Southern Engineering	Washington County	80	0	0%		
Amoco Corp. Refining Business	York County	25	0	0%		
	TOTALS	11,742	12,595	107%	16,261	29%

Note. "Short Term" means 1 - 2 years after project was initiated. "Long Term" means 3 - 5 years after project was initiated.

TABLE 1 (Continued)

Comparison of Anticipated Jobs (in 1998 Press Releases) to Actual Jobs Created

Company	Locality	Anticipated # Jobs to be Created (from Press Releases)	Short Term: Short Term Job Counts	Short Term: % Antici-pated Jobs Created	Long Term: Long Term Job Counts	Long Term: % Change from Short Term
LKM Industries	Alleghany County	125	0	0%	Bankrupt	
Sprint	Bristol	500	300	60%	600	100%
Extraction Technologies	Brunswick County	65	36	55%	36	0%
Value City Furniture	Caroline County	200	130	65%	148	14%
First Data Resources, Inc.	Chesapeake	500	447	89%	448	0%
Orca Yachts	Chesapeake	350	0	0%		
MCI WorldCom	Chesapeake	1100	1,136	103%	1140	0%
Towers Perrin	Chesapeake	1000	526	53%	1000	90%
Capital One	Chesterfield County	600	600	100%	600	0%
Lumberg, Inc.	Chesterfield County	100	0	0%		
LandAmerica Financial Group	Chesterfield County	160	339	212%	610	80%
Elliptus Technologies	Chesterfield County	250	0	0%		
Chubb Computer Services	Fairfax County	200	0	0%		
Road Runner	Fairfax County	70	31	44%	326	952%
Holligsworth & Vose Co.	Floyd County	25	25	100%	164	556%
Cresstale Limited	Franklin City	175	35	20%	Bankrupt	-100%
CarMax	Goochland County	1100	0	0%		
Gateway 2000	Hampton	250	1,031	412%	0	-100%
Howmet Corporation	Hampton	196	196	100%	196	0%
Civic Development Group	Harrisonburg	150	107	71%	107	0%
Hewlett-Packard Company	Henrico County	700	162	23%	162	0%
Specialty Coatings Limited	Henry County	30	6	20%	Closed	-100%
Drake Extrusion, Inc.	Henry County	50	192	384%	225	17%
Bassett Furniture Industries	Henry County	100	63	63%	96	52%
Mehler Engineered Products	Henry County	105	73	70%	56	-23%
Orbital Sciences Corporation	Loudoun County	1500	290	19%	825	184%
Eastern Isotopes, Inc.	Loudoun County	16	0	0%		
MCI WorldCom	Loudoun County	4000	500	13%	3500	600%
Ericsson	Lynchburg	150	48	32%	Closing	-100%
Frito-Lay	Lynchburg	800	400	50%	404	1%
Civic Development Group	Martinsville	150	119	79%	200	68%
CropTech Corporation	Montgomery County	100	0	0%		
CSSC Virginia, LLC	Newport News	300	0	0%		
AB&C Group	Orange Co.	125	142	114%	130	-8%
KMC America, Inc.	Portsmouth	60	0	0%		
Synthons, Inc.	Pulaski County	100	0	0%		
Kollmorgen	Radford	30	2	7%	0	-100%
College House Inc.	Richmond City	50	45	90%	51	13%
Gannon Technologies Group	Richmond County	400	105	26%	105	0%
AmeriCold Logistics	Shenandoah County	75	128	171%	127	-1%
Vaughan-Bassett Furniture	Smyth County	96	43	45%		
Mercantile Logistics, Inc.	Suffolk	300	0	0%		
Spandeck Inc.	Tazewell County	125	21	17%	21	0%
GEICO	Virginia Beach	800	1,520	190%	1736	14%
Bristol Compressors	Washington County	350	78	22%	350	349%
AB&C Group	Winchester	135	104	77%	104	0%
Kraft Foods, Inc.	Winchester	200	251	126%	501	100%
Kingston-Warren Corporation	Wythe County	92	90	98%	342	280%
TOTALS		18,055	9,321	52%	14,310	54%

Note. "Short Term" means 1 - 2 years after project was initiated. "Long Term" means 3 - 5 years after project was initiated.

Source: JLARC staff analysis of Governor's Office press releases, Virginia Department of Business Assistance data, and Virginia Economic Development Partnership data; and JLARC staff telephone interviews of local economic development officials.

In contrast, the "Long Term Job Counts" column in Table 1 represents the most recent number of jobs according to VDBA records or JLARC staff contact with local economic development officials. Therefore, the "Long Term Job Count" represents the number of jobs in place after a longer amount of time has elapsed (typically three to five years).

Table 1 indicates how the 89 projects fared in terms of creating the number of jobs that were announced in the press releases. In 17 of the 89 projects, no State grant money was actually spent, and no jobs were created. For various reasons, an additional 44 of these projects had Short Term Job Counts that were less than the number of jobs stated in the press releases. But 28 of these projects met or actually exceeded the number of jobs anticipated. In fact, several of these 28 projects produced two, three, or four *times* the expected number of jobs, so that they made up for many projects that did not meet expectations from the press releases. Further, the number of jobs at these companies later (as represented in the "Long Term Job Counts" column in Table 1) indicates that over half of these businesses in Virginia continued to expand even after the project itself was closed. Likewise, this column indicates that in 16 cases (out of the 72 cases with a positive number of "Short Term Job Counts"), the number of jobs decreased at a later time.

State Recovers Costs of GOF and Workforce Services Grants through Individual Income Tax Revenues within Three Years

The estimated individual income tax revenue is the most straightforward measure of an economic development program's impact on the State. Once the wages and the number of jobs created are known, some assumptions can be made regarding deductions and exemptions to estimate taxable income. From these estimates, individual income tax revenues can be derived. In this instance, the key variables are known, and reasonable assumptions can be made, to derive illustrative estimates of individual income tax revenues generated by the jobs represented in Table 1. VDBA and the VEDP collect data regarding the average wages of jobs created by business expansion projects receiving Governor's Opportunity Fund and workforce services grants. The workers holding these jobs can be assumed to be eligible for more than the minimum level of deduction on their Virginia income tax returns. In this particular illustration, they are assumed to be married filing jointly, to have a family of four, and to be claiming the standard deduction ($5,000) and all four exemptions ($800 times 4) against the income from these jobs on their Virginia income taxes. Given these assumptions, the Virginia taxable income generated by these jobs is derived, from which individual income tax revenues are estimated and shown in Table 2. These assumptions are intended to result in conservative income tax revenue estimates.

The main point that Table 2 illustrates is that, in aggregate, the State's benefits (in terms of direct individual income tax revenues alone) outweigh the costs of these two business incentive programs in about two and a half years. In particular, Table 2 shows that the State has recovered the cost of its workforce services grants through individual income tax revenues (based on the "Short Term Job Counts" that come primarily from VDBA for workforce training reimbursement)

TABLE 2

Comparison of State Project Costs to Individual Income Tax Generated by Created Jobs (1997)

		State Project Costs		Estimated Annual Virginia Individual Income Tax Revenues	
Company	**Locality**	**Governor's Opportunity Fund Grant**	**Actual Workforce Services Funding Spent**	**(Based on Short Term Job Counts)**	**(Based on Long Term Job Counts)**
Hershey Foods	Augusta County	$200,000	$18,000	$26,930	$63,585
Siegfried Haller Uhrenfabrik	Bedford County		$0		
Boise Cascade Office Products	Bristol		$213,018	$91,744	$91,932
Magnolia Manufacturing Co.	Carroll County	$100,000	$245,547	$61,680	$105,840
Dollar Tree Stores Inc.	Chesapeake	$200,000		$222,640	$222,640
Chubb Group Insurance	Chesapeake	$300,000	$425,721	$337,508	$345,071
Quality Packaging Systems	Chesterfield County		$63,468	$24,528	$31,828
Bernstein US	Chesterfield County		$0		
Nexus Communications	Dickenson County	$350,000	$52,753	$12,784	Out of business
TXI	Dinwiddie County	$3,000,000	$506,729	$863,422	$863,422
Creative Playthings	Emporia	$70,000	$5,775	$1,099	$8,371
Playgrounds, Inc.	Fairfax County		$0		
Medical Consumer Media	Fairfax County		$0		
Andersen Consulting L.L.P.	Fairfax County		$266,000	$389,866	$1,099,245
Kohl's Corporation	Frederick County	$275,000	$357,444	$184,799	$146,203
Bell Atlantic Plus, Inc.	Hampton	$200,000	$405,864	$191,664	$117,128
"K" Line America, Inc.	Henrico County		$129,312	$193,582	$221,998
White Oak Semiconductor	Henrico County		$3,053,809	$1,413,270	$1,340,500
GE Financial Assurance HQ	Henrico County		$281,209	$381,262	$433,670
GE - Life of Virginia	Henrico County		$181,594	$265,541	$1,444,248
5B's	Henry County		$100,850	$32,400	Bankrupt
American Fiber Industries	Henry County		$250,053	$53,905	$48,617
Amfibe, Inc.	Henry County & Martinsville		$5,070	$3,461	$86,520
Atlantic Coast Airlines	Loudoun County	$175,000	$657,297	$1,036,042	$3,336,688
GE - First Colony Ins.	Lynchburg		$66,313	$94,800	$94,800
Jones Apparel Group, Inc.	Mecklenburg & South Hill	$75,000	$100,465	$44,266	$34,243
Iceland Seafood	Newport News	$500,000	$264,550	$51,831	$63,761
Market Connections Co.	Norfolk		$146,330	$105,410	
Ontario Store Fixtures	Nottoway Co. & Blackstone	$150,000	$0		
Industrial Galvanizers America	Petersburg		$31,635	$19,845	$21,238
Dominion Semiconductor	Prince Wm. & Manassas		$1,273,800	$1,094,773	$1,276,290
Barber and Ross Millwork	Richmond City		$45,428	$18,827	$45,920
VehiCare, Inc.	Richmond City		$37,418	$34,759	$23,486
Maple Leaf Bakery	Roanoke City	$110,000	$75,041	$48,380	$49,835
Reynolds Metals	Russell County	$400,000	$251,103	$79,963	
National Foam Cushion	Scott County		$0		
Marley Mouldings	Smyth County	$100,000	$25,600	$22,278	$25,620
Mariah Vision3 Entertainmt	Suffolk		$13,902	$14,236	$20,979
Ferguson Enterprises	Warren Co. & Front Royal	$225,000	$121,066	$77,912	$85,033
Family Dollar	Warren County	$200,000	$254,621	$239,568	$239,568
Toray Plastics	Warren County	$500,000	$86,320	$62,814	$83,972
Southern Engineering	Washington County		$0		
Jouan, Inc.	Winchester		$60,250	$17,520	$39,420
Amoco Corp. Refining Business	York County	$0	$0		
TOTALS		$7,130,000	$10,073,354	$7,815,308	$12,111,671

TABLE 2 (Continued)

Comparison of State Project Costs to Individual Income Tax Generated by Created Jobs (1998)

		State Project Costs		Estimated Annual Virginia Individual Income Tax Revenues	
Company	**Locality**	**Governor's Opportunity Fund Grant**	**Actual Workforce Services Funding Spent**	**(Based on Short Term Job Counts)**	**(Based on Long Term Job Counts)**
LKM Industries	Alleghany County	$250,000	$0		Bankrupt
Sprint	Bristol		$120,165	$72,000	$144,000
Extraction Technologies	Brunswick County	$100,000	$21,378	$11,972	$11,972
Value City Furniture	Caroline County	$350,000	$68,642	$53,102	$60,455
First Data Resources, Inc.	Chesapeake	$300,000	$233,410	$145,400	$145,725
Orca Yachts	Chesapeake		$0		
MCI WorldCom	Chesapeake		$708,887	$213,568	$214,320
Towers Perrin	Chesapeake	$600,000	$451,608	$402,916	$766,000
Capital One	Chesterfield County		$414,600	$215,760	$215,760
Lumberg, Inc.	Chesterfield County		$0		
LandAmerica Financial Group	Chesterfield County		$340,175	$323,329	$581,801
Elliptus Technologies	Chesterfield County		$0		
Chubb Computer Services	Fairfax County		$0		
Road Runner	Fairfax County		$18,514	$99,678	$1,048,223
Hollingsworth & Vose Co.	Floyd County	$50,000	$16,500	$8,548	$56,075
Cresstale Limited	Franklin City	$200,000	$20,875	$8,400	Bankrupt
CarMax	Goochland County	$0	$0		
Gateway 2000	Hampton		$723,134	$247,440	$0
Howmet Corporation	Hampton	$100,000	$111,181	$145,448	$145,448
Civic Development Group	Harrisonburg		$34,382	$10,596	$10,596
Hewlett-Packard Company	Henrico County	$650,000	$87,625	$112,674	$112,674
Specialty Coatings Limited	Henry County		$3,680	$3,624	Closed
Drake Extrusion, Inc.	Henry County		$137,713	$99,594	$116,712
Bassett Furniture Industries	Henry County	$200,000	$39,060	$21,672	$33,024
Mehler Engineered Products	Henry County		$73,558	$46,066	$35,338
Orbital Sciences Corporation	Loudoun County		$358,000	$782,287	$2,225,471
Eastern Isotopes, Inc.	Loudoun County		$0		
MCI WorldCom	Loudoun County	$2,000,000	$300,000	$1,086,846	$7,607,922
Ericsson	Lynchburg	$800,000	$28,143	$18,159	Closing
Frito-Lay	Lynchburg	$1,000,000	$461,200	$216,640	$218,806
Civic Development Group	Martinsville		$38,238	$13,937	$23,424
CropTech Corporation	Montgomery County		$0		
CSSC Virginia, LLC	Newport News		$0		
AB&C Group	Orange County - Call Center		$58,819	$32,603	$29,848
KMC America, Inc.	Portsmouth		$0		
Synthons, Inc.	Pulaski County		$0		
Kollmorgen	Radford	$100,000	$1,417	$840	$0
College House Inc.	Richmond City		$27,277	$9,302	$10,543
Gannon Technologies Group	Richmond County		$53,708	$14,280	$14,280
AmeriCold Logistics	Shenandoah County	$200,000	$55,542	$54,016	$53,594
Vaughan-Bassett Furniture	Smyth County	$150,000	$0	$37,883	
Mercantile Logistics, Inc.	Suffolk		$0		
Spandeck Inc.	Tazewell County		$14,773	$12,051	$12,051
GEICO	Virginia Beach	$850,000	$607,304	$760,000	$868,000
Bristol Compressors	Washington County	$500,000	$46,690	$8,405	$37,716
Kraft Foods, Inc.	Winchester	$250,000	$162,678	$99,396	$198,396
AB&C Group	Winchester - Distribution		$47,074	$24,095	$24,095
Kingston-Warren Corporation	Wythe County		$33,731	$52,394	$199,099
TOTALS		$8,650,000	$5,919,679	$5,464,921	$15,221,367

Note. Zeroes denote that positive amounts planned were not realized.

Source: JLARC staff telephone interviews of local economic development officials; and JLARC staff analysis of Virginia Department of Business Assistance data and Virginia Economic Development Partnership data.

in less than a year and a half. In roughly another year, the Governor's Opportunity Fund costs are recovered through the estimated individual income tax revenues if the "Short Term Job Counts" are still used.

However, this individual income tax revenue estimate could be higher if the "Long Term Job Counts" are assumed instead. The "Short Term Job Counts" are more conservative and complete because they are generally based on documentation companies are required to provide for reimbursement purposes soon after they have completed training of their new hires. The "Long Term Job Counts" figures are more ad hoc in three ways: (1) they vary at what point in time they were updated; (2) they do not require as much substantiation as the "Short Term Job Count" figures (because they were not used for reimbursement purposes); and (3) they are simply missing in some cases (although there is no evidence that the jobs were terminated). Yet they do represent an attempt to provide a more recent representation of the number of jobs associated with a given project, even after the project may have been closed by VDBA and/or the VEDP. Further, in about 70 percent of the cases, the number of jobs initially created in the "Short Term" were found to remain intact or to increase, rather than to decrease, in the "Long Term" (as shown in Table 1).

The projects shown in Table 2 also have other economic impacts that are not quantified in this report. For example, the jobs created also increase State sales tax revenues, and the businesses would likely pay State corporate income taxes. Furthermore, the investment in facilities which the businesses make in association with these projects may have indirect economic impacts, such as increasing construction activity (and, therefore, affecting local construction jobs), and purchasing local materials and equipment. However, attempting to quantify these additional impacts would require some relatively speculative assumptions. Instead, the illustration based on State individual income tax revenues alone is sufficient to draw two conclusions: the State recovers the cost of its Governor's Opportunity Fund and workforce training grants in a fairly short amount of time, and the State generally continues to benefit from these projects afterwards.

There Are Some Businesses the State May Not Wish to Attract

When performing an Internet search on companies receiving business incentive grants, JLARC staff found that some of these companies may not have such a desirable effect on Virginia citizens. For example, one telemarketing firm which received workforce service grants to open a couple of call centers in Virginia has been sued or investigated in about 20 other states (primarily by state Attorney General offices on consumer fraud) for deceptive practices. When asked by JLARC staff, VDBA staff appeared to be unaware of legal actions having been taken against this company. Although this company may have created jobs and invested in facilities in Virginia, its impact on other Virginia citizens may be undesirable. Therefore, companies that may have adverse effects on Virginia citizens may warrant some additional screening before the State awards them grants to locate in Virginia.

STATE OBLIGATIONS TO FUND BUSINESS INCENTIVE GRANTS IN FUTURE YEARS

While State funding of GOF and workforce service grants in the past years appears to be cost-effective, big commitments have also been made for the State to fund other business incentive programs in future years. Two of the programs with the biggest commitments have not yet actually been fully implemented, so they cannot be evaluated in terms of their long-term costs and benefits.

How much grant money has the State already promised to pay for business expansions through business incentive grant programs in future years after the current biennium? Tables 3 and 4 address this question in two ways. Table 3 shows the maximum amounts that the State has promised to pay in future years if all businesses meet all performance criteria (such as jobs created and investment made). However, experience indicates that not all companies are likely to meet the performance criteria. Further, some programs are subject to General Assembly appropriations, meaning that the General Assembly may appropriate a smaller amount than the maximum levels. Therefore, Table 4 represents the State's commitment if some companies did not meet their performance criteria, or if the General Assembly made some policy decision other than appropriating the amounts specified in the *Code of Virginia*.

As shown in Tables 3 and 4, some business incentive programs already require substantial new appropriations of State funds in future fiscal years, while others do not. Among those that do not, the programs fall into one of two categories. One category consists of programs that may have promised grants in future years for business locations, but designated the money for these grants from funding already appropriated. These programs include the Governor's Opportunity Fund, the Industrial Access Road Program, and the Rail Industrial Access Program. The other category consists of programs that have made no promises of funding for future years after the current biennium. These programs include the Enterprise Zone Job Grants and the Solarphotovoltaic Manufacturing Incentive Grants.

Three programs (Workforce Services, the Virginia Investment Partnership, and the Semiconductor Performance Grant Programs) have the grants contingent on the companies demonstrating that they met performance criteria (such as jobs created or investments made). Although it is possible that all companies in future years will meet their performance criteria, experience indicates that it does not happen in all cases. In particular, VDBA staff estimated that of the companies which could claim workforce training grants in FY 2005, about 25 percent would actually meet the performance criteria that would qualify them for payment of the grants. Likewise, VEDP staff indicated that some companies with Virginia Investment Partnership agreements so far do not appear to be meeting their performance targets. While it is possible that these companies could turn their performance around in the near future and meet the performance criteria in time to qualify for the State payment of their VIP grants, such dramatic change becomes less likely as time goes on.

Table 3

Maximum Commitments of State Funding for Performance Grants in Future Years (Dollars Committed)

Fiscal Year	Governor's Opportunity Fund	Workforce Services	Virginia Investment Partnership	Semiconductor Manufacturing Performance Grant Programs	Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center	Other*	TOTAL
2005	0	7,824,663	0	7,650,000	20,000,000	0	**35,474,663**
2006	0	0	0	7,650,000	20,000,000	0	**27,650,000**
2007	0	0	0	7,650,000	0	0	**7,650,000**
2008	0	0	6,075,000	7,650,000	0	0	**13,725,000**
2009	0	0	7,795,000	5,950,000	0	0	**13,745,000**
2010	0	0	8,990,000	2,950,000	0	0	**11,940,000**
2011	0	0	13,670,000	2,950,000	0	0	**16,620,000**
2012	0	0	13,770,000	4,950,000	0	0	**18,720,000**
2013	0	0	7,695,000	2,000,000	0	0	**9,695,000**
2014	0	0	5,975,000	2,000,000	0	0	**7,975,000**
2015	0	0	4,780,000	2,000,000	0	0	**6,780,000**
2016	0	0	100,000	0	0	0	**100,000**
TOTALS	0	7,824,663	68,850,000	53,400,000	40,000,000	0	**170,074,663**

Table 4

Likely Required Payout Based on Anticipated Company Performance (Dollars Committed)

Fiscal Year	Governor's Opportunity Fund	Workforce Services**	Virginia Investment Partnership**	Semiconductor Manufacturing Performance Grant Programs	Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center	Other*	TOTAL
2005	0	2,018,508	0	7,650,000	***	0	**9,668,508**
2006	0	0	0	7,650,000	***	0	**7,650,000**
2007	0	0	0	7,650,000	0	0	**7,650,000**
2008	0	0	275,000	7,650,000	0	0	**7,925,000**
2009	0	0	1,195,000	3,000,000	0	0	**4,195,000**
2010	0	0	1,690,000	0	0	0	**1,690,000**
2011	0	0	6,370,000	0	0	0	**6,370,000**
2012	0	0	6,470,000	0	0	0	**6,470,000**
2013	0	0	6,995,000	0	0	0	**6,995,000**
2014	0	0	5,975,000	0	0	0	**5,975,000**
2015	0	0	4,780,000	0	0	0	**4,780,000**
2016	0	0	100,000	0	0	0	**100,000**
TOTALS	0	2,018,508	33,850,000	33,600,000	0	0	**69,468,508**

* "Other" programs include the Industrial Access Road Program, the Rail Industrial Access Program, Enterprise Zone Job Grants, and Solarphotovoltaic Manufacturing Incentive Grants.

** Assumes some companies will not meet performance criteria required for grants.

*** Maximum amount in *Code of Virginia* Section 2.2-2444, but subject to General Assembly appropriation.

Source: VEDP; VDBA; Department of Housing and Community Development; Department of Mines, Minerals and Energy; Virginia Department of Transportation; Department of Rail and Public Transportation.

Some programs are more explicitly subject to the appropriations process of the General Assembly. For example, referring to the Semiconductor Performance Grant Program, section 59.1-284.14 of the *Code of Virginia* states: "The grants…shall be paid…subject to appropriations by the General Assembly." Another program is operations grants to the Herbert H. Bateman Advanced Shipbuilding and Carrier Integration Center. These grants are not contingent on a company meeting performance criteria, but they are included in Tables 3 and 4 because they have similarities to other business location or expansion projects examined in this report. In this case, the State and a locality provide grant funding to a project in which a company has created a major facility in Virginia, and State support for this project is provided through the VEDP. Section 2.2-2444 of the *Code of Virginia* states that: (1) the operations grant shall be awarded after July 1, 1998 and before July 1, 2006; and (2) the total operations grants awarded shall not exceed $20 million during any fiscal year and shall not exceed $40 million in the aggregate. To date, the General Assembly has not appropriated any money for these operations grants. While the *Code* states the maximum that should be appropriated to these operations grants, the General Assembly's appropriation process determines the extent to which the State actually funds these grants.

CONCLUSION

This report has three main conclusions. One is that the State could eliminate funding of its two (currently) largest business incentive programs in a given fiscal year, but there would be longer-term consequences. Fewer new jobs (along with investments in facilities) would likely be created or transferred to Virginia; instead these jobs would likely locate in other states. In two to three years, the State's resulting loss of individual income tax revenues would likely be more than the amount that was saved by cutting these programs. There would also be less corporate income tax and sales tax revenues, and less indirect economic activity from the investments (that would accompany these business expansions) not being made.

Another conclusion is that the State may wish to reconsider to which types of companies it provides incentives to locate or expand in Virginia. State taxpayer dollars should not be spent on businesses that may be defrauding Virginians or having other undesirable effects on the population at large.

Third, the State has promised some companies some sizable grants in future years after the current biennium, which would require new appropriations from the General Assembly. However, past experience indicates that not all companies will likely meet the required performance criteria to receive the grants. Further, the General Assembly has the prerogative to fund the maximum amounts, or less, in making its appropriations in future years. However, VEDP staff expressed the concern that not fully funding the agreed-upon amounts with companies may undercut the State's economic development efforts in the future.

Recommendation (1). **The General Assembly may wish to consider the likely benefits and costs of business incentive grant programs when determining future appropriations. In particular, because the benefits appear to outweigh the costs in two to three years, the General Assembly may wish to continue funding the Governor's Opportunity Fund and the Virginia Department of Business Assistance's Workforce Services program.**

Recommendation (2). **The Department of Business Assistance, the Virginia Economic Development Partnership, and other agencies awarding business incentive grants to private companies should screen them for undesirable impacts they may have on Virginians before awarding them incentives to locate in Virginia.**